

AMENDED IN ASSEMBLY JUNE 18, 2015

AMENDED IN SENATE APRIL 23, 2015

**SENATE BILL**

**No. 490**

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**Introduced by Senators Beall and Huff**  
**(Coauthors: Senators Anderson, Bates, Cannella, Hall, Nguyen,**  
**Pavley, Stone, Vidak, and Wolk)**  
(Coauthors: Assembly Members Chu and Salas)

February 26, 2015

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An act to amend Section 4652.5 of the Welfare and Institutions Code, relating to developmental services.

LEGISLATIVE COUNSEL'S DIGEST

SB 490, as amended, Beall. Regional centers: audits.

Under existing law, the Lanterman Developmental Disabilities Services Act, the State Department of Developmental Services is authorized to contract with regional centers to provide services and supports to individuals with developmental disabilities. Existing law requires an entity that receives payments between \$250,000 and \$500,000 per year from one or more regional centers to obtain an independent audit or review of its financial statements and requires an entity that receives payments that are equal to or more than \$500,000 per year to obtain an independent audit. Existing law exempts payments made using usual and customary rates for services provided by regional centers from these requirements.

This bill would instead require an entity to obtain an independent audit or review report of its financial statements relating to payments made by regional centers if it receives payments between \$500,000 and \$2,000,000 from one or more regional centers and would authorize these entities to apply for, and require the regional center to grant, a

2-year exemption from this requirement if the regional center does not find issues in the audit or review that have an impact on regional center services. The bill would also require an entity to obtain an independent audit if it receives payments that are equal to or more than \$2,000,000 and would authorize these entities to apply for, and require the regional center to grant, a 2-year exemption from the audit requirement if the audit resulted in an unmodified opinion, an unmodified opinion with additional communication, or a qualified opinion with issues that are not material and pervasive. The bill would require a regional center to notify the department of any exemption it grants to an entity that receives a qualified opinion report. The bill would also exempt social security benefit payments from these requirements.

Vote: majority. Appropriation: no. Fiscal committee: no.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 4652.5 of the Welfare and Institutions  
2 Code is amended to read:  
3 4652.5. (a) (1) An entity that receives payments from one or  
4 more regional centers shall contract with an independent accounting  
5 firm to obtain an independent audit or review of its financial  
6 statements relating to payments made by regional centers subject  
7 to all of the following:  
8 (A) If the amount received from the regional center or regional  
9 centers during the entity’s fiscal year is more than or equal to five  
10 hundred thousand dollars (\$500,000) but less than two million  
11 dollars (\$2,000,000), the entity shall obtain an independent audit  
12 or independent review report of its financial statements for the  
13 period. Consistent with Subchapter 21 (commencing with Section  
14 58800) of Title 17 of the California Code of Regulations, this  
15 subdivision shall also apply to work activity program providers  
16 receiving less than two hundred fifty thousand dollars (\$250,000).  
17 (B) If the amount received from the regional center or regional  
18 centers during the entity’s fiscal year is equal to or more than two  
19 million dollars (\$2,000,000), the entity shall obtain an independent  
20 audit of its financial statements for the period.  
21 (2) This requirement does not apply to payments made using  
22 usual and customary rates, as defined by Title 17 of the California

1 Code of Regulations, for services provided by regional centers or  
2 social security benefit payments.

3 (3) This requirement does not apply to state and local  
4 governmental agencies, the University of California, or the  
5 California State University.

6 (b) An entity subject to subdivision (a) shall provide copies of  
7 the independent audit or independent review report required by  
8 subdivision (a), and accompanying management letters, to the  
9 vendoring regional center within ~~30 days after completion of the~~  
10 ~~audit or review.~~ *nine months of the end of the fiscal year for the*  
11 *entity.*

12 (c) Regional centers that receive the audit or review reports  
13 required by subdivision (b) shall review and require resolution by  
14 the entity for issues identified in the report that have an impact on  
15 regional center services. Regional centers shall take appropriate  
16 action, up to termination of vendorization, for lack of adequate  
17 resolution of issues.

18 (d) Regional centers shall notify the department of all qualified  
19 opinion reports or reports noting significant issues that directly or  
20 indirectly impact regional center services within 30 days after  
21 receipt. Notification shall include a plan for resolution of issues.

22 (e) For purposes of this section, an independent review of  
23 financial statements shall be performed by an independent  
24 accounting firm and shall cover, at a minimum, all of the following:

25 (1) An inquiry as to the entity's accounting principles and  
26 practices and methods used in applying them.

27 (2) An inquiry as to the entity's procedures for recording,  
28 classifying, and summarizing transactions and accumulating  
29 information.

30 (3) Analytical procedures designed to identify relationships or  
31 items that appear to be unusual.

32 (4) An inquiry about budgetary actions taken at meetings of the  
33 board of directors or other comparable meetings.

34 (5) An inquiry about whether the financial statements have been  
35 properly prepared in conformity with generally accepted accounting  
36 principles and whether any events subsequent to the date of the  
37 financial statements would have a material effect on the statements  
38 under review.

1 (6) Working papers prepared in connection with a review of  
2 financial statements describing the items covered as well as any  
3 unusual items, including their disposition.

4 (f) For purposes of this section, an independent review report  
5 shall cover, at a minimum, all of the following:

6 (1) Certification that the review was performed in accordance  
7 with standards established by the American Institute of Certified  
8 Public Accountants.

9 (2) Certification that the statements are the representations of  
10 management.

11 (3) Certification that the review consisted of inquiries and  
12 analytical procedures that are lesser in scope than those of an audit.

13 (4) Certification that the accountant is not aware of any material  
14 modifications that need to be made to the statements for them to  
15 be in conformity with generally accepted accounting principles.

16 (g) The department shall not consider a request for adjustments  
17 to rates submitted in accordance with Title 17 of the California  
18 Code of Regulations by an entity receiving payments from one or  
19 more regional centers solely to fund either anticipated or  
20 unanticipated changes required to comply with this section.

21 (h) (1) An entity required to obtain an independent audit or  
22 independent review of its financial statement pursuant to  
23 subparagraph (A) of paragraph (1) of subdivision (a) may apply  
24 to the regional center for, and the regional center shall grant, a  
25 two-year exemption from the independent audit or independent  
26 review requirement if the regional center does not find issues in  
27 the prior year's independent audit or independent review that have  
28 an impact on regional center services.

29 (2) An entity required to obtain an independent audit of its  
30 financial statements pursuant to subparagraph (B) of paragraph  
31 (1) of subdivision (a) may apply to the regional center for an  
32 exemption from the independent audit requirement, subject to all  
33 of the following conditions:

34 (A) If the independent audit for the prior year resulted in an  
35 unmodified opinion or an unmodified opinion with additional  
36 communication, the regional center shall grant the entity a two-year  
37 exemption.

38 (B) If the independent audit for the prior year resulted in a  
39 qualified opinion and the issues are not material and pervasive,  
40 the regional center shall grant the entity a two-year exemption.

1 However, the entity and the regional center shall continue to  
2 address issues raised in this independent audit, regardless of  
3 whether the exemption is granted.

4 (3) A regional center shall notify the department of any  
5 exemption it grants to an entity that receives a qualified opinion  
6 report.

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